



DEFENSE LOGISTICS AGENCY
THE DEFENSE CONTRACT MANAGEMENT COMMAND
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June 18, 1997

IN REPLY
REFER TO AQOF

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS**

**SUBJECT: DCMC Memorandum No. 97-56, Use of Management Councils for Value
Engineering (POLICY)**

This is a POLICY memorandum. It expires on May 20, 1998, unless sooner superseded or rescinded. Target Audience: DCMC personnel involved in Value Engineering (VE) or in Management Councils.

Reference DCMC Memorandum No. 96-65, DoD IG Audit of the DLA Value Engineering Program (INFORMATION), dated November 26, 1996, which reemphasized the importance of VE and the need to adhere to DLAM 5000.4.

This memorandum provides direction regarding the use of the Management Councils for improving contractor participation in VE, and it provides information on the renewed DoD emphasis on VE as a cost reduction tool. At the May 1997 DCMC Commander's Conference, the Principal Deputy Under Secretary of Defense (Acquisition and Technology) stressed the need to use VE as part of the DoD efforts to reduce weapon system's costs. This need was also communicated to the Military Service program managers by the Under Secretary of Defense (Acquisition and Technology) at the April 1997 Program Executive Officer and Systems Command Commanders Conference.

On September 17, 1996, the Principal Deputy Under Secretary of Defense (Acquisition and Technology) established a Process Action Team (PAT) to:

- a. Identify Program Manager and contractor barriers to Value Engineering Change Proposals (VECPs).
- b. Develop a long term action plan to remove or minimize those barriers. A key PAT recommendation was the use of government and contractor staffed Integrated Product Teams (IPTs) to develop and process VECPs. The PAT strongly believes that if IPTs are given the authority and responsibility to jointly develop and process the VECP up to the final contract modification approval (which must remain the responsibility of the Procuring Contracting Officer (PCO)) the bulk of the existing delays could be minimized. The VECP PAT report is currently undergoing final review; when released, we will provide you copies.

At the March 1997 DoD-Industry VE Symposium, an action team tasked with fully exploiting DCMC's influence to enhance the VECF also recommended that overarching IPTs or Management Councils which exist at most CAOs be required to address VE. In addition, the action team recommended that an Army proposed VE Federal Acquisition Regulation (FAR) revision be approved for all of DoD.


In a memorandum dated April 10, 1997, the Director, Defense Procurement, authorized all military departments and defense agencies to deviate from the requirements of FAR 48.001, 48.102, 48.104 and the clause at 52.248-1 for a 2-year period ending March 31, 1999, or until the FAR is revised. The memorandum titled "Class Deviation--Value Engineering Change Proposals" is available in the AQOF team part of the DCMC Homepage (http://www.dcmc.dcrb.dla.mil/TEAMINFO/AQOF/Eng_sof.htm). The revised FAR language changes the sharing period from the current 3 years to a range of 3 to 5 years; the incentive sharing arrangement from the current fixed rate for the contractor of 50 percent to a range of 50 to 75 percent; and the current fixed contractor shared collateral savings of 20 percent to a range of 20 to 100 percent.

The time is right for DCMC to take the lead in initiating VE discussions at the contractors through the Management Councils. Specifically, CAOs need to:

- a. Inform the contractor of the FAR deviation approval.
- b. Clearly communicate to the contractor that VE is desired. The program office representative will be able to reemphasize this point.
- c. Use the Management Council as a VECF problem solving forum. Many of these problems can be quickly solved, greatly reducing delays encountered in the past. The Management Council provides the natural forum for building consensus..

Management Councils, together with the FAR deviation and the renewed emphasis on VE including other initiatives generated by the DMC VECF PAT recommendations, will result in an increase in contractor submission of VECFs. We will be tracking contractor submission of VECFs in the Automated Configuration Tracking System. DoD expects to see a significant increase in the next year.

If you have any questions, please contact Mr. Aristides Maldonado (AQOF) at (703) 767-3355 or your District POC: Mr. Ross London (DCMDE) at (617) 753-4244; Mr. Edmund Minassian (DCMDW) at (310) 335-3688; or Ms. Julie Sexton (DCMDI) at (703) 767-2783.



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